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C O N F I D E N T I A L SECTION 01 OF 03 BUCHAREST 000088

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SUBJECT: LNG TERMINAL AN APPEALING PROSPECT AS ROMANIA
RE-THINKS ITS ENERGY STRATEGY

Classified By: DCM Mark Taplin for reasons 1.5(b) and (d)

11. (C) SUMMARY. A team of U.S. investors led by ETG International (www.etgint.com), a natural gas transport company and UGI (www.ugicorp.com), a natural gas marketing and distribution company, hope to construct an LPG and LNG terminal at the port of Constanta on Romania's Black Sea Coast. Project consultant Adrian Basora, a former U.S. Ambassador to the Czech Republic, met with EUR A/S Dan Fried and DAS Matt Bryza last summer to discuss the proposal. The development team is interested in securing USTDA assistance for a feasibility study. USTDA's Dan Stein met with Government of Romania (GOR) officials on January 23 to discuss the project. Project developers have expressed an interest in announcing the project in conjunction with the April 2008 NATO Summit in Bucharest. One potentially difficult question that must be addressed is the willingness of Turkish authorities to allow transit of liquefied natural gas through the Bosphorus. Still, Romanian officials expressed a strong interest in the project and the potential to enhance Romania's energy security by diversifying sources of supply. The GOR is clearly unsettled by Gazprom's aggressive deal-making in the region and is actively re-assessing Romania's energy diplomacy, especially vis-a-vis Russia. END SUMMARY.

LNG ON THE BLACK SEA

12. (SBU) During a January 21-24 Bucharest trip, USTDA Regional Director Dan Stein met with GOR officials to discuss a proposed grant to conduct a feasibility study for the construction of an LPG and LNG terminal at the Port of Constanta. Stein met with representatives of the Port, state-owned natural gas producer Romgaz, and senior GOR officials from the Ministry of Economy and Finance and the Office of the Prime Minister. Port officials confirmed that adequate space is available at the Port for construction of LPG and LNG facilities. All parties indicated the support of the Government of Romania for such a project, emphasizing the

project's importance to Romania's goal of diversifying sources of natural gas supply, as elicited in the country's National Energy Strategy. Romania currently imports 40 percent of its natural gas demand, all of it from Russia. Romania currently pays \$350 per 1000 cubic meters, one of the highest prices in Europe.

13. (SBU) USTDA plans to send an independent consultant in February to assess the viability of the LPG/LNG terminal project, its budget and terms of reference. The consultant's travel will be timed so as to complete a similar assessment for a potential LNG terminal in Lithuania. The USTDA board will then review the assessment and, if approved, would sign a Grant Agreement with the Romanian grant recipient. The U.S. project promoters had indicated a desire to announce the feasibility study in conjunction with the April 2 NATO Summit in Bucharest. Stein clarified that USTDA's timeline is not necessarily driven by the NATO Summit and that concluding an Agreement by then may not be realistic.

14. (SBU) Stein commented that there was a general feeling of support within the USG for the project, but that several questions would need to be addressed in the approval stage and, if approved, during the feasibility study. The focus of the project would need to be addressed, for one. While an investment in an LPG facility may be justified strictly from an economic point of view, it would not address the broader Romanian energy security question. USTDA would want to feel comfortable that LNG is a realistic component of the project.

15. (SBU) A close examination of the role of Turkey in the success of the project will also need careful consideration, Stein said. Working out the project details with the Turkish government could take some time, and the approach would have

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to be handled in the right manner and in coordination with the GOR. While Stein felt that Turkey might not have a legal basis to prevent LPG/LNG shipments through the Bosphorus, it could find ways to thwart the investment if it so chose.

PURSuing ROMANIA'S ENERGY SECURITY POLICY

16. (SBU) Ministry of Economy State Secretary Viorel Palasca, responsible for Romanian oil and natural gas policy, affirmed that Romania is actively seeking new sources of natural gas and is interested in any project that would meet that aim. The Ministry considers the LPG/LNG terminal project to fit this category and therefore supports the completion of a feasibility study financed by USTDA. Palasca noted that recent events, particularly Gazprom's South Stream deal with Bulgaria and acquisition of Serbian state energy company NIS, are forcing Romania to change its approach to diversifying sources of natural gas. The Ministry believes Nabucco and South Stream are compatible in the long run, but that that compatibility may be 15-20 years in the future based on European market demand. Romania's own timeframe for diversifying gas sources is five years, he said. As such, other projects such as the LPG/LNG terminal and the White Stream pipeline project are increasingly attractive. Romania is also pursuing a pipeline connection to Hungary at Arad-Szeged that would connect it to the Baumgarten-based gas hub and the broader Western European network. However, Palasca acknowledged that this would largely be another route for Russian-origin gas.

17. (SBU) Romania is also examining gas supply from Central Asia as a future option. Palasca visited Kazakhstan and Azerbaijan late last year, and plans to visit Turkmenistan in early February. He commented that the MFA and the PM's office are currently demarching Central Asian states to obtain a clearer picture on the region's potential to supply gas to Romania. Constantin Ciupagea, the Prime Minister's economic counselor, noted that Romania has invited Azerbaijan, Georgia, Kazakhstan and Turkmenistan to a summit-level discussion on energy issues and is seeking a

more active role in the region. This is one of the few issues where President Traian Basescu and Prime Minister Calin Tariceanu see eye-to-eye, he added.

18. (SBU) Dan Stein noted the general view that there is probably insufficient gas available in Kazakhstan at this time to support a pipeline. Stein suggested Romania support a U.S. proposal to Turkmenistan, backed by Azerbaijan, that it build a short under-sea connection from its offshore deposits to Azerbaijan's offshore network. Such a construction would avoid the debate over littoral-states' rights that have surrounded a Trans-Caspian pipeline, and would provide Turkmenistan with the option of shipping gas to Europe via existing routes through Azerbaijan, Georgia and Turkey. The Turkmen have in the past indicated they would not consider the project or the possibility of USTDA assistance until they had resolved a maritime boundary demarcation dispute with Azerbaijan. Stein suggested Palasca meet with Embassy Ashgabat during his Turkmen visit, scheduled for February 10, to further understand the U.S. approach to Turkmen gas development.

WHITE STREAM

19. (SBU) Stein and Palasca discussed the White Stream Pipeline project, a potential gas route from the Caspian to Europe that would bypass both Russia and Turkey by crossing under the Black Sea directly from Georgia to Romania or via Ukraine (Crimea) to Romania. Stein noted that Azeri state-owned gas company SOCAR had indicated its interest in principle in White Stream based on the attraction of avoiding two possibly contentious transit countries. Apparently the EU is financing a small feasibility study on the project, he

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said. Stein posited potential synergy with the ETG project if White Stream were to ship gas from Georgia to Constanta via tanker from a theoretical gasification plant in Georgia rather than a sub-sea pipeline, as the distance is at the level where LNG begins to make commercial sense.

COMMENT

10. (C) We expect the Romanians will remain steadfast supporters of the Nabucco Pipeline for economic, historical and geopolitical reasons. However, recent events in Bulgaria and Serbia have led key players in the GOR to hedge their bets, and LNG is one option. Even careful, experienced professionals like Prime Minister Tariceanu's chief of staff -- soon to be named a special envoy for energy matters -- sound a bit flustered by the successive Russian moves since the beginning of the year. On a potential LNG terminal, the GOR understands the importance of Turkey to the success of the project. They feel, however, that relations with Turkey are strong enough to secure its cooperation, not least due to Romania's continued vocal support for keeping Turkey on a path to EU accession. Cooperation with Turkey in the energy sphere has advanced of late, with the two countries pursuing an undersea electricity trunk line. The LPG/LNG project developers have averred a strong relationship with the Koc Group in Turkey, and Turkish commercial participation is a possibility. One constant expressed by both the project developers and the GOR is the importance of USG support in the dialogue with Turkey if the project is to be a success. Their hope is to see strong USG backing for their dialogue with Turkey on Bosphorus passage.

11. (C) More broadly, many countries in this region seem to be facing critical decisions about how to best secure their long-term energy needs. We need to find ways now to reassure even close partners like Romania that the game is not over, and that we are serious about supporting regional energy projects that bolster rather than diminish diversity of supply. End comment.
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